

Information Request DTE-6-2

Referring to Exh. BEC-JFL-1 (Settlement), at 5, please recalculate, for the year 2002, columns B, C, D, and E, using the transition charge calculated in Information Request DTE-6-01.

Supplemental Response

During a conference call with Department staff, the Company was asked to resubmit a revised version of the calculations attached to the initial response to this Information Request that not only changes the 2002 "Prior Year Deferral," but changes the actual transition charge for 2002. The Department staff indicated that the purpose of the calculation was to determine the size of the mitigation incentive had the Company not complied with the requirements of the settlement with the Division of Energy Resources in D.T.E. 98-111-A.

Any adjustment to the incentive mitigation would be inappropriate for the following reasons:

1. The transfer price from Access Charge to the Standard Offer was already below the market price (which the Settlement Agreement in D.T.E. 98-111-A was intended to address);
2. The headroom generated by the SOSFA that is outside the statutory rate-reduction cap was less than the Standard Offer Surcharge approved by the Department as part of the Restructuring Settlement.¹ The impact of the SOSFA approved by the Department and the Standard Offer Surcharge are equivalent and thus any adjustment to eliminate the impact of the SOSFA

¹ Restructuring Settlement D.P.U./D.T.E. 96-23 page 32. "I.B.5.(d) Notwithstanding any other provision in this Settlement, in the event the deferred costs under the standard offer at any time accumulate to an amount in excess of \$50 million, Boston Edison shall be authorized to fully recover the amount of deferred costs in excess of \$50 million by filing with the Department a standard offer surcharge. Such standard offer surcharge will be designed to recover the deferred excess costs forecast for the next twelve (12) months on an annual basis and shall go into effect sixty (60) days following the filing with the Department. The collection of deferred excess costs will be through a uniform cents per kWh surcharge to the standard offer until such time as the amount of energy consumed by retail customers receiving standard offer service reduces to 15 percent of the energy delivered to all retail customers. At that point, the surcharge will be billed to all retail customers through the delivery charge."

would be inconsistent with the Department's approval of the Restructuring Settlement.

It is equally inequitable to make an arbitrary adjustment to the incentive mechanism that attempts to alter the incentive calculation in violation of two separate settlement agreements approved by the Department. In addition to the reasons set forth in the Response to Information Request DTE-6-1 (Supplemental), and the reasons described in the initial response to this Information Request, the recalculated incentive amounts should not be used for the following reasons.

The calculation of the incentive amounts on page 5 of Attachment DTE-6-2 Revised, is not an accurate representation of anything meaningful. As described in the Response to Information Request DTE-6-1 (Supplemental), the calculated level of transition charge is a meaningless number because it was not in effect and could not have been put into effect. Therefore, the resulting determination of the incentive amount, which is based on the level of transition charge, is also a meaningless number. The incentive amount is based on the actual transition charge imposed, and the amounts for 2002 and 2003 never occurred. Because there is no way to reconstruct what might have happened in 2002 and 2003, there is no way to "guess" what transition charge would have been implemented if the calculation the transfer price were performed in a manner different from that approved by the Department.

Finally, the Company has prepared a comparison of the total incentive bonus calculated as requested by the Department and the amount that was calculated in Attachment DTE-2-3(a) in D.T.E. 01-78.² The results are contained in Attachment DTE-6-2 Revised, which shows a difference in the bonus amount of under \$900,000 (or approximately 0.8 percent) over eight years.

Response

See Attachment DTE-6-1(a), page 5. See also Response to Information Request DTE-6-1.

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In order to attempt to limit the difference to the impact of the changes requested in this Information Request, it is necessary to hold everything else constant, *i.e.*, use a consistent series of forecast numbers. If the data were updated, the comparison would be measuring the impact of other changes (as well as the change required in the information request).

It would be inappropriate for the Department to require the calculation of the mitigation incentive in accordance with Attachment DTE-6-1(a), page 5 for a number of reasons. First, it would be inconsistent with the provisions of the terms of several settlements already approved by the Department. The Restructuring Settlement in D.P.U./D.T.E. 96-23 established the means by which incentive bonuses are to be determined and the calculations set forth in Exhibit BEC-JFL-1 (Settlement), at 5 comply with those requirements. The formula essentially determines the incentive payments based on reductions in the magnitude of the transition charge which occurs through the mitigation of stranded costs.³ It would also be inconsistent with the terms of the approved settlement with the Division of Energy Resources in Boston Edison Company, D.T.E. 98-111-A, which dealt with the manner by which the transfer price is to be established, and the settlement amounts included in the settlement exhibits approved in D.T.E. 01-78 (Phase II). See Response to Information Request DTE-6-1.

The calculation of the transfer price, which underlies this request, also cannot be viewed in isolation since changing the transfer price would have significant impact on the timing of the recovery of transition costs and the recovery of costs associated with Standard Offer Service. As indicated in the attachments to the response to Information Request DTE-6-1, the recovery of transition charges would be delayed (resulting in an under-recovery of costs) and the recovery of costs associated with Standard Offer Service would be accelerated (resulting in an over-recovery of costs). The different carrying charges for the two types of costs leads to a significant increase in the total costs paid by customers under the scenario proposed in Information Requests DTE-6-1 and DTE-6-2. The total increase to customers is nearly \$14 million. See comparison of costs set forth in Attachment DTE-6-2. The Department cannot adjust one element of the

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The Company is mindful that it does make an adjustment in the calculation of the incentive payments to reverse the impact of the repayment of carrying charges associated with the BETG investment, as ordered by the Department in D.P.U./D.T.E. 97-95. Boston Edison Company, D.P.U./D.T.E. 97-95, at 94-95 (2001). In that case, the Department ordered the repayment of the BETG-related amounts through the transition charge mechanism. However, this adjustment had nothing to do with the normal restructuring mitigation and, presumably was to be repaid through the transition charge only because it was a ready vehicle to ensure payment to all customers. In such a circumstance, the Department reasonably required the Company to exclude the impact of the BETG repayment on the mitigation incentive, since the repayment was unrelated to restructuring activities. The treatment of the BETG payment provides no precedent for dealing with the calculations of requested in the information request because the costs at issue are part of the normal calculation of the transition charge as set forth in the Restructuring Settlement and subsequent reconciliation settlements.

calculation without adjusting all of the calculations, which would negatively affect customers.

Finally, in the Response to Information Request DTE-4-6, the Company explained why the calculation of the mitigation incentive as set forth in the settlements referenced above, understates the size of the incentive payments. If the Department were to reopen the issue of establishing an appropriate market price for NUG contracts, which it should not, the likely impact would be an increase in the level of payments. As explained in the Response to Information Request DTE-4-6:

The Company's approved Restructuring Settlement Agreement, D.P.U. 96-23, provides for both Access Charge Mitigation Incentive and a Fuel Adjustment. The Restructuring Settlement Agreement does not require an adjustment in the Mitigation Incentive calculation when the Fuel Adjustment is in effect.

Nevertheless, a comparison of the transfer price of the NUGs compared to the market price proxy of the Default Service price indicates that the NUGs are transferred well below market price. This means that if the transfer price were set at the market price based on Default Service procurements, the incentive mitigation would be higher than it is when establishing the transfer price in accordance with the DOER settlement approved by the Department in Boston Edison Company, D.T.E. 98-111-A by reflecting Standard Offer Service revenues (including the SOSFA).

The comparison is as follows (units are in cents per kilowatt hour):

	<u>NUG Transfer Price</u>	<u>Default Service</u>	<u>[Difference</u>
1999	3.100	3.505	0.405
2000	3.400	5.620	2.220
2001	6.133	7.520	1.387
2002	4.772	5.502	0.730
2003	4.004 forecast	4.829 forecast	0.825]

Response to Information Request DTE-4-6.

	Mitigation Incentive (\$ million)		
	DTE 01-78	DTE 02-80A	
	<u>DTE-2-3(a)</u>	<u>IR-DTE-6-1 Rev</u>	<u>Difference</u>
2001	52.467	52.467	-
2002	13.606	9.151	4.455
2003	7.087	13.583	(6.496)
2004	12.446	12.251	0.195
2005	7.533	6.504	1.028
2006	5.826	5.857	(0.030)
2007	4.816	4.838	(0.023)
2008	3.790	3.805	(0.015)
2009	2.753	2.760	(0.008)
Total	110.324	111.217	(0.894)